

Latino Home Ownership

Executive Summary

Home ownership continues to be a critical issue for the Latino community - 73.4% of households headed by White householders live in their own home, compared to 47.3% of Latinos. The gap remains, despite dramatic increases in home ownership by Latinos in the last 10 years.

Several factors impact progress:

- Latinos continue to face lower mortgage rate approvals than Whites
- Cost of housing has skyrocketed while income levels for Latinos remain consistently lower than Whites
- Latino population tends to be one of the youngest in the US – in California, the average age for the state's Latino population is 25 while the average age among all Californians is 38
- There is a distinct difference in the Latino community between U.S. born versus immigrant in terms of home ownership. U.S. born Latinos tend to have higher educational levels and income and are able to buy homes
- Latinos lack information on home-buying and language barriers make dissemination more difficult and complicated
- Latinos have a more difficult time establishing a credit history

Steps have to be initiated now to enable more Latinos to realize the America dream of home ownership. By 2020, Latinos will comprise 45 to 50% of the population in California. Nearly two-thirds of the Latino population will enter the peak buying years at that time. It is in the best interests of not only Latinos but the State and the housing industry to position themselves to benefit from the large influx of these potential home owners.

The Tomas Rivera Policy Institute created the “Casa de Su Sueno” project to expand minority home ownership. They estimate 1.5 million Latino families will buy homes by the year 2010 but state that the number could exceed 2.2 million if proper outreach is provided.

The Latino Caucus should establish a goal of having 2.2 million Latino families own home by 2010 and develop appropriate legislation to ensure that the necessary support mechanisms are put in place. Examples of some of the key areas that need to be addressed include:

- Cross cultural communication training for real estate and financial agents
- Extensive financial awareness programs targeted for Latino communities
- Development and Expansion of affordable housing programs in both urban and rural areas
- Establishment of specific educational programs for young Latinos highlighting the importance of establishing credit, financial planning and understanding mortgage programs and financing.

History/Background

Home ownership has been and continues to be a problem for the population in the United States. Statistics show that 73.4% of households headed by White householders live in their own home, compared to 47.3% of Latinos.¹ Despite the enormous jump in homeownership between 1990 and 2000 for all Americans, the gap between Latinos and Whites remained. In fact, while mortgage approval for Latino families increased 236% between 1993 and 2003, they still face lower overall mortgage approval rates than non-Hispanic Whites.² Additionally, the Latino population has consistently had a lower median household income than Whites and has tended to be disproportionately concentrated in expensive urban markets, such as Los Angeles.

One distinction to be made is that the Latino housing market is sharply divided between the “largely well acculturated segments of the population which tend to be U.S. born and possess higher educational levels and the considerable immigrant community, which has been the primary driver of population growth over the last several decades.”³ Coincidentally, while population numbers have dramatically increased over the past thirty years, overall homeownership levels for Latinos have declined from 49% to 41% between 1970 and 2000.

Another fact worth noticing is that the Latino population in the United States tends to be one of the youngest. In 1993, 29.6% of Latinos were under the age of 15.⁴ In contrast, only 20.4% of non-Hispanic Whites were under the same age. Also, while the average age among all Californians is 38, the average age for the state’s Latino population is 25.⁵ This relative youthfulness may help to explain why Latinos are experiencing such a low homeownership rate while the older White community experiences a higher one. As a testament to the relative youth of the community, 44% of Latino homeowners have had their homes for fewer than five years.

¹ U.S. Census, 2003 data

² Cortes, Luis *Hispanic Homeownership at a Crossroads* 2005

³ Kotkin, Tseng and Ozuna *Rewarding Ambition: Latinos, Housing and the Future of California* 2002

⁴ The Current Population Survey

⁵ Kotkin, Tseng and Ozuna 2002

Current Conditions in Latino Housing

In 2003, homeowners comprised 68.3% of the nation's population.¹ In California, only 57.5% of the population had homes. This continuing disparity exists in part because of California's prohibitively high median home cost of \$455,000.² The disparity increases when ownership rates of the country's Latinos is compared to that of Whites: 47.3% versus 73.4%. Gaps in socioeconomic status, information and borrowing constraints are all factors that contribute to this disparity.

In California, perhaps more than elsewhere, socio economic status has a huge impact on one's ability to own a home. The Latino population of California is disproportionately dispersed into different class and working levels.³ The homeownership problem is most pronounced among the lower wage workers, such as manufacturers or service workers, who are least financially able to cope with the rising costs of housing. Also, a large portion of the White population has shifted into elder groups with the credentials necessary to finance a home purchase while the Latino population remains relatively young. In 2000, 35% of Latinos were under the age of 25 – well below the age at which one would have accrued the necessary credit history or down payment for a home purchase.

Another obstacle standing in the way of Latino home ownership is a lack of information. Latinos who speak Spanish as a primary language are less likely than other racial groups to have accurate home-buying information.⁴ Language barriers cause a lack of information and/or misinformation. Only 60% of primarily Spanish-speaking Latinos know that information on buying a home is available in a language other than English, compared to 93% of the predominantly English-speaking Latino population that was aware of this fact. Additionally, many Latinos have been found to believe that the paperwork and requirements for home ownership are very complicated and difficult.⁵ Recent studies also show that immigration status, whether legal or illegal, causes intimidation because of invasion of privacy fears.⁶ Similarly, Asian-Americans' cultural sensitivities regarding privacy are sometimes offended by a loan officer's demand for job, family and other information.

Finally, more so than the affordability of a home's price, credit and borrowing constraints are the largest obstacles to home ownership for many Latinos. The large immigrant contingent of the Latino population has a difficult time establishing a credit history. Even after establishing residency in the U.S. and are eligible to open credit-building accounts, they largely choose to have no relationship with formal financial institutions. It is common to hear of large sums of money being saved under mattresses and such. It is important to develop programs that introduce Latinos to credit-building institutions.

¹ U.S. Census

² Wells Fargo 2005

³ Milken Institute

⁴ Fannie Mae Foundation 2003

⁵ Freddie Mac Foundation

⁶ Tomas Rivera Policy Institute

Legislative Efforts

The Fannie Mae Foundation (Federal National Mortgage Association), which was created by congress in 1970 to expand minority homeownership, is currently partnered with the Tomas Rivera Policy Institute (T.R.P.I.) to create the “Casa de Su Sueno” project. The goal of this project is to provide financing to the underserved Latino population. Fannie Mae has demonstrated exemplary efforts to collaborate with housing organizations and political officials to create homeownership opportunities for minorities. T.R.P.I. estimates 1.5 million Latino families will buy homes by the year 2010, but that the number can exceed 2.2 million if outreach programs, counseling, and innovative mortgage lending is implemented.

In 2003, the federal government stepped up efforts to increase homeownership for minorities when President Bush created “The American Dream Down Payment Act.” Fannie Mae estimates that this effort will raise minority homeownership from 51% to 55%. This law allows the Secretary of Housing and Urban Development to make grants to individual states for down-payment assistance and home repair. The law also allows families to benefit from the greater of either 6% of the purchase price of their respective homes or \$10,000.

The California Legislature has made its own strides in this arena. In 2003, Assemblymember Gene Mullin introduced AB 304, which established higher assistance for the California Housing Finance Agency, which provides loans to schoolteachers and school personnel. This legislation, however, restricts beneficiaries to specific neighborhoods.

In 2004, AB 2838, introduced by Assemblymember Simon Salinas, attempted to amend California’s existing Homebuyer’s Down Payment Assistance Program, which helps first time low- and moderate income home buyers by providing up to 6% of their home value for a down payment. However, like AB 304, AB 2838 is restricted to revitalization areas. Despite the availability of fill-in space in more urban areas, beneficiaries of such assistance are forced to purchase homes in less fashionable or valuable neighborhoods.

The Future and Our Goals

In the near future, Latinos will become the ethnic majority in California. It is estimated that by the year 2020 there will be 21.3 million more Californians, and that 45% to 50% will be Latinos – mostly born in the U.S. Nearly two-thirds of the Latino population in California will enter the peak home-buying periods of their life in the next few decades.¹ As this population comes of age, legislation must be in place to ensure that the home buying process is streamlined, accessible and understandable. The main goal for the future is to ensure that the disparity between Caucasian homeownership and Latino homeownership is eliminated. It is in the best interests not only of the Latino population, since homeownership is a powerful status symbol in the U.S., but also of the housing industry, which should strive to position itself to benefit from the huge influx of Latinos who are of home buying age.

By demystifying the home buying process for Latinos, educating realtors and lending institutions on the Latino market and providing incentives for cities and developers to construct more affordable housing, the goal of having equitable homeownership rates for Latinos may be realized in the years to come.

The Latino Caucus should establish a goal of having the number of Latino families buying homes exceed 2.2 million by 2010. The Caucus should initiate legislation to establish and expand outreach programs, counseling, innovative mortgage lending and affordable housing to ensure the goal is reached.

¹ Kotkin, Tseng and Ozuna *Rewarding Ambition: Latinos, Housing and the Future of California* 2002

Recommended Legislative Action

1. Education

- a. Cross-Cultural Communication** - Continue and expand the continuing education requirements for real estate agents and expand this sort of cultural education requirement to include appropriate officers of financial institutions. Culturally and linguistically appropriate programs for prospective homebuyers should strive to educate the Latino community in an easy-to-understand setting.
- b. Financial Awareness for the Latino Community** - Bring more extensive understanding of financial requirements for home buying and awareness of available assistance programs. Make interaction with formal banks more inviting. Lending/credit institutions should begin outreach programs targeted at the Latino community. It is estimated that many Latinos who are qualified to buy homes are not aware of this fact, due to a lack of general homeownership knowledge. Since the Latino community is a rapidly expanding market, outreach programs on the part of lenders represents a potentially rewarding investment.

2. Housing

- a. More Affordable Housing** - Find new revenue sources for cities so that developer fees can be reduced, allowing affordable housing to be financially feasible for housing developers. Also, since affordable housing is generally associated with lower property taxes, cities must be given an incentive to develop affordable housing. Rezoning might also be another way to provide more housing.
- b. Expand Areas for Low-income Homebuyer** - Pepperdine University study implies that sufficient fill-in housing exists in metropolitan communities. Rather than restricting low-income homebuyers to remote or depressed areas (as is currently done with some assistance programs), assistance should be granted for home purchases regardless of area.

3. Future Research

- a. Monitor Home-Buying Habits** - Future studies should monitor the home-buying habits of the next Latino home purchasing generation. It will be of interest to see what sort of impact the huge under-25 Latino population will have on Latino home ownership percentages.
- b. Examine Demographics** - The relationship between number of wage-earners per household, educational attainment and homeownership in the Latino community should be further examined in order to better understand the nature of the housing disparity between Latinos and Whites

Additional Comments from Other Offices:

1. Have each Latino Caucus member hold a workshop on financial awareness. We did one last month, and it was almost exclusively attended by minorities, although we didn't specifically target them. We had bilingual materials on hand, also.
2. Create incentives for infill. For instance, San Bernardino in our district is an old city, with old housing, and high levels of poverty. Our problem in that city is attracting more upscale investment...how do we combine this with new homeownership? Infill incentives are key in this situation.
3. Another housing bond through the California housing and community development agencies.
4. Education, education, education. Ensure all housing materials are available in print in Spanish and English.
5. Direct the Attorney General to aggressively investigate claims of predatory lending, and how these practices adversely affect Latinos and other minorities.